

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the April 5, 2000
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: May 3, 2000

INFORMATION:

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session April 5, 2000 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
MARCH 8, 2000
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Emma Zink
Phil Angelides, State Treasurer
Kathleen Connell, State Controller
Curt Robinson, representing State Superintendent of Public Instruction,
Delaine Eastin
Annette Porini, representing State Director of Finance
Tim Gage

OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT

Walter Barnes
Jennifer DuCray Morrill
Chris Drevalas
Anne Stausboll

STAFF PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Doug Wills, Staff Counsel
Cathy Neff, Staff Counsel
Ed Derman, DCEO, External Affairs and Program Development
Michelle Cunningham, Director of Fixed Income
Real Desrochers, Director of Alternative Investments
Steven Tong, Director of Internal Equities
Janice Hester Amey, Principal Investment Officer
Richard Rose, Principal Investment Officer
Jim Hurley, Investment Officer
Mary Ann Avansino, Administrative Assistant

OTHERS PRESENT

Ian Lanoff, Fiduciary Counsel
Allan Emkin, Pension Consulting Alliance

John Charley, Pension Consulting Alliance
 Nori Gerardo Lietz, Pension Consulting Alliance
 Terry Sander, Pension Consulting Alliance
 Doug Le Bon, Pathway Capital Management
 Al Clerc, Pathway Capital Management
 Toni Brown, Callan Associates Inc.
 Terry Dennison, William Mercer Investment Consulting Inc.
 Joseph Nankoff, BARRA RogersCasey
 Christopher Lyon, BARRA RogersCasey
 Gary Krane, California Teachers Divestment Campaign
 Beverly Carlson, CTA
 Gary Clifton, San Mateo Employees Retirement Association, Trustee
 Michael McMahon, San Mateo Employees Retirement Association, Trustee
 Scott Adams, USWA
 Mary Wells, Council for Responsible Public Investing
 Carla Din, The Rose Foundation
 Donald Douglas, CTA, Retired
 Loretta Toggenburger, UTLA, Retired
 Edna White, CTA
 George Wichman, CTA
 Ellen Logue, CTA/NEA, Retired
 David Walrath, CRTA
 Peter Camejo, Contra Costa County Retirement Association, Trustee
 James Lee, Contra Costa County Retirement Association, Trustee
 Jay Schenirer, Sacramento City Unified School District Board of Education
 John Perez, UTLA
 Anne Stupey, CFT
 Paul Knepprath, American Lung Association
 Amanda Bohl, IALAC
 Dennis Meyers, Association of California School Administrators
 Peter G. Mehr, Fresno County Superintendent of Schools
 David Tokofsky, LAUSD School Board
 Marc Burgett, American Heart Association

A quorum being present, Chairperson Lynes called the open session meeting to order at 10:03 a.m.

- I. **ANNOUNCEMENTS** (Item 2)
There were no announcements.
- II. **APPROVAL OF MINUTES OF THE MARCH 8, 2000 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)
MOTION duly made by Mr. Mathiesen, seconded by Ms. Zink and carried to approve the minutes of the March 8, 2000, Investment Committee, Open Session as presented.
- III. **REPORT OF SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 4)
Mr. Angelides reported that the Subcommittee heard a panel presentation and discussed corporate governance strategies. He reported that Corporate Governance policy would be considered in June and a Business Plan was scheduled for July.

BY CONSENSUS the Investment Committee accepted the report.

IV. **GENERAL – REVIEW OF TOBACCO REPORTS** (Item 5)

Chairperson Lynes announced that following reports by the consultants, statements from the public would be heard. Each public statement can be a maximum of five minutes.

Mr. Mitchell gave an overview of the current of tobacco review and related issues.

Mr. Nankoff and Mr. Lyon discussed the written analysis. Discussion included a review of the purpose, scope and methodology used in the study of the historical and potential future impact of tobacco divestiture on investment performance, investment risk and transaction costs.

Dr. Connell arrived at the meeting at 10:35 a.m.

Mr. Emkin discussed the written report which included comments on the BARRA RogersCasey and IRRC analyses, expectations of Wall Street and other experts for the tobacco industry, and policy issues related to tobacco divestment.

Mr. Lanoff discussed his written report on relevant fiduciary requirements that a fiduciary must consider in determining whether to invest in or divest from a particular investment opportunity.

Chairperson Lynes recessed the meeting at 11:26 a.m.

The meeting reconvened at 11:35 a.m.

V. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 17)

Chairperson Lynes announced that any member of the public wishing to speak would have a time limit of five minutes. Public comments were heard from Dr. Krane, Ms. Carlson, Mr. Perez, Mr. Camejo, Ms. Wells, Mr. Lee, Mr. Meyers, Mr. Schenirer, Mr. Mehr, Mr. Knepprath, Mr. Burgett, Ms. Stupey, Mr. Tokofsky, and Mr. Walrath. Handouts provided by Dr. Krane and Mr. Camejo are attached to the minutes.

Chairperson Lynes recessed the meeting at 12:15 p.m.

The meeting reconvened at 1:08 p.m.

VI. **GENERAL – REVIEW OF TOBACCO REPORTS** (Item 5)

Discussion of tobacco related issues ensued among the Committee and Consultants.

Dr. Connell left the meeting at 2:05 p.m. Mr. Barnes assumed representation for the State Controller.

Following discussion, Staff was directed to develop Benchmark modification policy for Committee consideration at the May meeting.

Chairperson Lynes recessed the meeting at 2:30 p.m.

The meeting reconvened at 2:50 p.m.

Mr. Angelides did not return to the meeting following the recess. Ms. DuCray Morrill assumed representation for the State Treasurer.

VII. **GENERAL – SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING DECEMBER 31, 1999** (Item 6)

Mr. Emkin presented a written and oral performance report for the period ending December 31, 1999. Discussion ensued.

MOTION duly made by Mr. Fenimore, seconded by Ms. Zink and carried to adopt a resolution to accept the semi-annual performance report submitted by Pension Consulting Alliance as presented.

VIII. **ALTERNATIVE INVESTMENTS - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING DECEMBER 31, 1999** (Item 7)

Mr. Clerc and Mr. Le Bon presented a written and oral performance report for the period ending December 31, 1999. Discussion ensued.

MOTION duly made by Ms. Porini, seconded by Ms. DuCray Morrill and carried to adopt a resolution to accept the semi-annual report submitted by Pathway Capital Management as presented.

Dr. Connell returned to the meeting at 3:35 p.m.

IX. **REAL ESTATE - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING DECEMBER 31, 1999** (Item 8)

Ms. Gerardo Lietz and Ms. Sander presented a written and oral performance report for the period ending December 31, 1999. Discussion ensued regarding the change in format of the performance report received by the Committee. Also discussed, was a change in the participation roles of Pension Consulting Alliance and E&Y Kenneth Leventhal in providing real estate consulting services to CalSTRS.

BY CONSENSUS, the Committee tabled approval of the semi-annual performance report to the May meeting and directed the Consultant to prepare the semi-annual report to include information provided in prior reports. Staff was directed to prepare an agenda item for the May meeting regarding the real estate consultant contract issues.

X. **LEGISLATION** (Item 9)

Mr. Derman discussed AB 2745 that would require CalSTRS to hire auditors to evaluate and report on current and potential investments in foreign companies that pose a threat to national security.

MOTION duly made by Ms. Zink and seconded by Dr. Bodle to adopt an oppose position to AB2745 as presented. A roll call vote was taken. Dr. Bodle, Mr. Fenimore, Ms. Zink and Mr. Mathiesen voted yes. Ms. Porini, Ms. DuCray Morrill, and Dr. Connell abstained. Chairperson Lynes voted yes. The motion carried.

Chairperson Lynes recessed the meeting at 4:15 p.m.
The meeting reconvened at 4:25 p.m.

XI. **CREDIT ENHANCEMENT PROGRAM – MULTI-FAMILY HOUSING** (Item 10)

Mr. Rose presented a written report outlining credit enhancement for housing projects which has been provided under existing policy.

XII. **CREDIT ENHANCEMENT PROGRAM - ACTIVITY STATUS REPORT** (Item 11)

Mr. Rose reviewed the written report.

XIII. **REAL ESTATE - ACTIVITY STATUS REPORT** (Item 12)

Mr. Mitchell and Mr. Hurley presented the written report.

- XIV. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 13)
Mr. Desrochers and Mr. Rose reviewed the written report.
- XV. **QUARTERLY LITIGATION REPORT** (Item 14)
Mr. Waddell and Mr. Wills reviewed the written report.
- XVI. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 15)
Mr. Mitchell reviewed the written.
- XVII. **DRAFT AGENDA FOR MAY INVESTMENT COMMITTEE MEETING** (Item 16)
Mr. Mitchell presented a draft agenda for the May Investment Committee meeting. Following discussion, Staff was directed to add items on Benchmark Modification Policy, Real Estate Consultant Contract, and Real Estate Semi-annual Performance Report for Period Ending December 31, 1999.
- XVIII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 17)
There were no further statements from the public.
- XIX. **MOVE TO CLOSED SESSION**
Chairperson Lynes recessed the meeting at 5:15 p.m. and reconvened directly into closed session.
- XX. **ADJOURNMENT**
Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 7:45 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson